



**Walmart Inc. (NYSE: WMT)**

**Third Quarter Fiscal Year 2019 Earnings**

**November 15, 2018**

**Dan Binder: VP, Investor Relations, Walmart Inc.**

The management commentary below contains statements that Walmart believes are “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, and that are intended to enjoy the protection of the safe harbor for forward-looking information provided by that Act. Please review our accompanying presentation for a cautionary statement regarding forward looking statements made below.

As a reminder, our earnings materials include the press release, management commentary and accompanying slide presentation - which are intended to be used together. All of this information, along with our store counts, square footage and other materials are available on the investors’ portion of our corporate website – [stock.walmart.com](http://stock.walmart.com).

For our U.S. comp sales reporting in fiscal 2019, we utilize a 52-week calendar. Our Q3 reporting period ran from Saturday, July 28, 2018 through Friday, October 26, 2018.

Before we get started, I’d like to remind you that we will report our fourth quarter earnings on Tuesday, February 19, 2019. In addition, we have posted our fiscal year 2020 earnings release dates on our IR website.

## **Doug McMillon: President & CEO, Walmart Inc.**

We're pleased with the overall results we posted for the third quarter. We continue to see strong comp store sales. Our results reflect not only value our customers are finding in our offer, and a lot of hard work from the team, but certainly some macro tailwinds as well, especially in the U.S. Total revenue for the third quarter grew 2.4 percent on a constant currency basis, and adjusted EPS increased 8 percent.

Each of our segments achieved solid sales growth. Excluding fuel, comp sales at Walmart U.S. increased 3.4 percent against last year's most difficult comparison, and Walmart U.S. eCommerce grew sales 43 percent. Sam's Club grew comps 5.7 percent, excluding fuel and tobacco. Outside of the U.S., comp sales were positive in all our major markets, led by Mexico's 6.3 percent gain. We were also pleased to officially welcome Flipkart to the Walmart family when we closed that acquisition on August 18. Overall, we're encouraged by the momentum in our business and excited to be in a strong position to invest for the future as prior investments pay back.

Before we get into the details, I want to thank everyone who joined us in Bentonville last month for our annual Investment Community Meeting. We shared our current thinking and strategy, which is centered around accelerating the pace of innovation while maintaining strong execution in the day-to-day business. Taking risks and learning from our successes and failures is in our DNA. During the meeting, we shared a few examples of that innovation, including:

- Increasing automation and the use of robotics in the supply chain and across the back, middle and front of the store;
- Aggressively rolling out grocery pickup and delivery in the U.S. as well as testing different solutions for last mile delivery;
- Pioneering the use of blockchain for food safety at scale;
- Making acquisitions and partnerships to play offense and expand our eCommerce assortment; and
- Testing conversational commerce with Jetblack.

To give you a sense of the pace of change here at Walmart, I want to share a few of the announcements we've made since that meeting. We've announced:

- Improvements to our Walmart.com marketplace with millions more items available for free two-day shipping and the ability to facilitate returns of these items at our over 4,700 U.S. locations;
- A new checkout experience in time for the holidays called Check Out with Me that lets customers bypass checkout lines and pay for items in areas where they're shopping;
- The opening of a new test club in Dallas, which will serve as an innovation lab for Sam's Club;
- A high-tech grocery distribution center in Shafter, California, which will move 40 percent more product than a traditional distribution center;
- A partnership with PayPal to provide financial services and products;
- A global initiative with leading consumer brands to tackle plastic waste;
- A partnership with Jet.com and Blue Apron to offer on-demand meal kits for delivery, as well as launching Bonobos and Nike on the Jet site; and
- A shared services partnership with Genpact

As you can see, there's a pattern here – our company is moving faster and we're accelerating innovation. We're creating a business model that functions as an ecosystem with the customer at the center.

Collectively, we operate through the lens of our four strategic objectives: make every day easier for busy families, change how we work, operate with discipline and use trust as a competitive advantage. As we transform the business, we'll continue to filter our decisions through these priorities.

Let's move on to our operating segments, and I'll begin with Walmart U.S.

The team delivered another solid quarter. Comp sales, excluding fuel, increased 3.4 percent, and we gained market share in key categories, including food, consumables and many areas of general merchandise,

according to Nielsen and The NPD Group, respectively. Comp inventory was about flat and we leveraged expenses – the productivity loop is working.

We continue to expand our reach from an omnichannel perspective. We now have nearly 2,100 grocery pickup locations and we'll have about 700 pickup towers by the end of this fiscal year. Grocery pickup has consistently delivered one of the highest Net Promotor Scores we've ever had and that continued throughout the aggressive rollout in Q3. As we've learned to do pickup well, it has unlocked our ability to provide delivery. We're moving quickly on this front as well, and by the end of the year we'll cover about 40 percent of the population with delivery through about 800 stores.

In eCommerce, sales growth improved sequentially to 43 percent. We're primarily focused on the fundamentals of the business, but we're also playing offense and innovating with Store No8. Our Customer Value Index score is running ahead of the aggressive plan we set for this year, led by progress we're making on the Have it and Deliver it metrics. We're expanding same-day delivery options through omnichannel capabilities and with Jet.com, and we're adding more digitally native brands to the portfolio. We have an opportunity to improve the margin mix in this business, and we'll do this by expanding the tail of the assortment through first-party items and marketplace. The process takes time, and we're making progress. In fact, we recently announced new partnerships with Ellen DeGeneres and Advance Auto Parts, and we acquired the specialty retailer Bare Necessities.

The holidays are fast approaching, and we have integrated plans in place with our stores and online to continue taking market share. We've added new tools for customers and associates to improve speed and efficiency. For example, we've added customized store maps to the Walmart app to help customers quickly and easily find the items on their list. Combined with the new Check Out with Me checkout experience, we'll give busy families the greatest gift of the season – time back in their day. Toys will also be a focus. In stores, 30 percent of our fall assortment in this

category is new, and we have 40 percent more toys online. Overall, we'll have the best prices on a broader assortment delivered through a seamless shopping experience.

At Sam's Club, we saw strong comp sales growth aided by a strengthened value proposition as we invest in price and improve our assortment. Comps grew 5.7 percent, excluding fuel and tobacco, which benefited from the transfer of sales from closed clubs as well as from eCommerce growth of 32 percent. The grocery, fresh and consumables categories all performed well, and the penetration of our Member's Mark brand increased approximately 90 basis points over last year. I'm especially pleased with the performance in fresh. This is an important category for our target member and a key traffic driver for us.

We've built a robust technology team at Sam's. They're turning out new apps for associates and members at the pace of a start-up. In some instances, we've launched apps in a matter of weeks from initial concept. We recently opened a new test club in Dallas, which will serve as an innovation lab in addition to a convenient shopping destination for the neighborhood. The Sam's team is making good progress across merchandising, operations and with our digital transformation.

Moving to International, we're creating strong local businesses powered by Walmart. We're accelerating omnichannel capabilities and positioning the portfolio for access to greater growth.

It's exciting that Flipkart is now part of our consolidated results. The team recently had great success and a lot of fun with the Big Billion Days sale. In fact, they surpassed records set during previous years, including the highest number of concurrent users on the Flipkart app, reaching nearly one million users simultaneously, and we also sold one million smartphones in the first hour of the event.

Now, let me highlight a few takeaways from the quarter from our other major markets.

Results at Walmex continue to be strong with comp sales of 5.4 percent for the quarter. I visited the market with our team last week, and I've never been more excited about this business. It's been a strength historically and the way the team is changing from within to work in a faster, more creative and digital way is impressive. Gui Loureiro and the leadership team have a lot of interesting work under way as we build-out our ecosystem for the region. We also launched a new digital platform called Cashi, which provides customers with a secure digital payment option on their mobile phone, and we'll expand the capabilities of this product over time. We also have some exciting work underway to serve those that are unbanked with a Semanitas product that fits well within our Bodega Aurrera business. We're also helping reach customers that lack access to high speed internet with eCommerce kiosks in stores. Customers appreciate the extended assortment offered through the kiosks and the ability to pick up items when it's convenient for them. Recently we announced our agreement to acquire Cornershop, a leading online marketplace platform for on-demand delivery that operates in Mexico and Chile. In Central America, we continue to gain market share and improve profitability despite a challenging environment. The strategies we've implemented are starting to show results, and we're really focused on productivity. The team at Walmex is leading in this rapidly changing environment, delivering strong results and positioning the business for continued growth.

In China, comp sales grew 2.2 percent led by momentum in fresh. Our members continue to love Sam's Club, and during the recent Mid-Autumn Festival Sam's delivered a 12 percent comp. China is a leading source of retail growth in the world, and we're positioning our business from an omnichannel perspective to seize the opportunity. We continue to grow through our partnership with JD.com, we're utilizing small urban fulfillment centers to meet the everyday needs of busy families, and we now have more than 10 million users on our Scan & Go app, through the Tencent WeChat platform.

Turning to Canada, comp sales increased 2.5 percent, led by good results in food. We see meaningful price gaps to competitors, and

according to Nielsen we gained market share in certain categories, including fresh foods. In eCommerce, we delivered net sales growth of greater than 20 percent, increased the number of SKUs available on marketplace and added new stores that offer online grocery. We also opened a new dedicated fulfillment center that will provide capacity to manage growth as well as to better manage costs.

In the U.K., comps of 2.0 percent marked the sixth consecutive quarter of growth, and online grocery sales outpaced the market, according to Kantar. Additionally, we received follow-up communication from the competition authorities related to the proposed merger of Asda and Sainsbury's. This latest statement was in-line with our expectations, and we will continue to proactively work through the process with the CMA.

In closing, it's an exciting time to be at Walmart, and we look forward to what's ahead. We're inventing the future and finding solutions to reduce friction and serve customers more seamlessly, even as we deliver consistent results today.

As we head into the most critical time of the year, I want to thank our associates for the hard work they do every day. I'm confident in our plan to deliver a great holiday season for customers, and it's all because of the people who are bringing it to life.

Let me end by wishing you and your families a joyful holiday season and thank you for your interest in Walmart.

**Brett Biggs: EVP & CFO, Walmart Inc.**

I'm pleased with our third quarter results and the continued momentum we have in the business. Today's results reflect consistent execution of our strategic plan, including disciplined price investment, pursuit of operational excellence and various initiatives we have previously shared with you. Customers are responding to the improved omnichannel shopping experience and this is translating nicely to market share gains in the U.S., according to Nielsen and The NPD Group.

Before we discuss the quarter, I want to thank everyone who participated in the Investment Community Meeting last month. We are accelerating innovation in many areas of the business and were particularly excited to feature supply chain and store technology that we've been testing and scaling. The technology we're putting in place is growing our unique set of assets that will enable us to reduce costs, improve inventory flow and execute faster. This is important in reducing friction for the customer, improving profitability and creating sustainable long-term competitive advantages.

Now, let's discuss the third quarter results. We had another strong performance and there are several key highlights:

- Walmart U.S. delivered strong comp sales growth of 3.4 percent, with two-year stack comps up more than 6 percent in Q3. It has been over ten years since we've had back-to-back quarters with two-year stack comps above 6 percent;
- Walmart U.S. eCommerce sales improved to 43 percent growth, keeping on track to achieve about 40 percent growth for the year;
- Operating income increased 5.9 percent on a constant currency basis;
- Adjusted EPS increased approximately 8 percent year on year; and
- Reflecting year-to-date results and continued momentum in the business, we are raising the Walmart U.S. comp sales and Adjusted EPS guidance for FY19

So, let's get to the details. Keep in mind that this is the first quarter that International results will include Flipkart for a portion of the quarter, while Brazil's results have been deconsolidated this quarter.

Total revenue increased 2.4 percent in constant currency to \$126.1 billion, an increase of \$2.9 billion dollars. Both Walmart U.S. and Sam's Club continued to deliver strong comp sales performances, and nine of 10 Walmart International markets had positive comps. This included our four largest international markets, which were led by Mexico's 6.3 percent comp. As expected, total net sales were negatively affected by



approximately \$1.3 billion due to the deconsolidation of Brazil for two months from our International results.

Profit results were solid with Adjusted EPS up about 8 percent to \$1.08. GAAP EPS of \$0.58 was comparable to last year's \$0.58 per share. Discrete items in both years negatively affected GAAP EPS. Please refer to the reconciliation of GAAP to Adjusted EPS in the press release.

Now, let's discuss more of our operating results.

Consolidated gross profit margin declined 21 basis points primarily due to price investments in certain markets, increased transportation costs, and the margin mix effects from eCommerce growth.

As a company, we leveraged operating expenses as a percentage of sales by 38 basis points in the period due largely to lapping two discrete items from last year. These included an accrual of \$283 million related to the FCPA matter and a \$150 million impairment charge related to the decision to exit certain properties in one of our International markets. Excluding these items, we would have leveraged expenses slightly. Walmart U.S. continued to deliver strong expense leverage in stores, but this was offset by International due to expenses related to Flipkart. In addition, we recorded an accrual for a proposed settlement related to a securities class-action, somewhat offset by favorable legal settlements and insurance commitments.

Net interest expense decreased 1.3 percent, which includes the positive effect of the deconsolidation of Brazil and the increased interest expense from the company's bond issuance related to the Flipkart transaction.

The company's effective tax rate decreased compared to last year due primarily to tax reform. The quarter's effective tax rate was negatively affected by timing and the mix of earnings, but we still expect the full-year effective tax rate to fall within the previously guided range of 24 to 26 percent for Adjusted EPS.

During the quarter, we continued to provide good cash returns of \$3.8 billion to shareholders through dividends and share repurchases.

Now, let me discuss the performance of each of the operating segments in more detail.

### Walmart U.S.

Walmart U.S. delivered strong comp sales growth of 3.4 percent. We started the quarter strong with a solid back-to-school season and finished strong with solid sales of fall seasonal goods. Our omnichannel offering continues to resonate with customers and drive momentum in this healthy consumer environment. Keep in mind that we lapped last year's comp sales benefit of 30-50 basis points from hurricanes, with only a marginal benefit from storms this year. On a two-year stacked basis, comp sales increased 6.1 percent. Growth was strong across channels with store traffic and ticket up 1.2 percent and 2.2 percent, respectively, while eCommerce sales grew 43 percent and contributed approximately 140 basis points to the segment comp.

We're encouraged by the sales and market share gains we saw in key categories, according to Nielsen and The NPD Group. The low-single-digit comp growth in the grocery business for the quarter was slightly below the second quarter as we lapped last year's hurricanes, but we were pleased to see sequential improvement in the two-year stack comp, which was the best in nearly 9 years. Fresh food led the way with strong traffic. Health and wellness delivered a mid-single digit comp sales gain and general merchandise comp sales were up a low-single-digit percentage with continued strength in apparel and toys. We feel good about our inventory and price position as we head into the holiday period.

In Walmart U.S. eCommerce, we continue to focus on improving the Customer Value Index. Our sales growth reflects the progress we are making, especially in the assortment and delivery metrics, resulting in higher net promoter scores. We've added over 2,000 brands to Walmart.com just since April, and in the past few weeks, we added Nike and Bonobos merchandise to Jet.com along with Blue Apron meal kits.

We've also improved delivery accuracy, and we announced that we're adding free two-day shipping of millions of marketplace items and expanding the capabilities for customers to return eCommerce items to their local Walmart store.

We remain excited about the opportunity in Grocery Pickup and Delivery. We have nearly 2,100 locations with grocery pickup and we're on track to offer same-day grocery delivery from approximately 800 stores by year-end. Customers want product faster than ever before, and Walmart is the best positioned in the industry to deliver same day. We're moving with speed to capitalize on opportunities and continuing to accelerate innovation to operate more efficiently and save customers time and money.

Walmart U.S. gross margin rate declined 28 basis points due primarily to the pricing strategy, higher transportation expenses, and the increasing mix of eCommerce growth, partially offset by the overlap from last year's hurricanes.

Operating expenses leveraged 28 basis points and the stores leveraged at an even greater rate, reflecting strong sales, increased productivity, and the overlap from last year's hurricanes. The Walmart U.S. stores team has leveraged expenses for an impressive seven consecutive quarters, even after raising the starting wage rate earlier this year. The utilization of various technologies has contributed to greater labor efficiencies and improved associate engagement with customers.

Overall, we're pleased with the third quarter performance, as well as the plans for the fourth quarter. We're well prepared to serve customers during the holiday season through a combination of stores and eCommerce with an expanded assortment, low prices, and industry-leading delivery and product-return options.

### Walmart International

The International business had a solid quarter with nine of 10 markets delivering positive comp sales. We're pleased with the progress being made to deliver innovative localized solutions to solve unique customer

needs, as we execute against our strategy of building strong local businesses powered by Walmart.

During the quarter, we completed the purchase of the majority stake in Flipkart, which is consolidated into our results for approximately half of the quarter, and we announced the proposed acquisition of Cornershop. Customer expectations are increasing around the world and competition remains intense, so we're using our scale and unique assets to our advantage. We're staying out in front by seizing large opportunities, expanding our omnichannel offering, positioning the business to stay on offense, prioritizing resources, and managing the global portfolio for the long-term.

Net sales in constant currency increased 1.6 percent, but declined 2.6 percent on a reported basis due to an approximately \$1.2 billion currency impact primarily related to the Mexican and Argentinian Pesos. Also, as I noted earlier, the deconsolidation of Brazil resulted in an additional \$1.3 billion sales headwind in the quarter.

Operating income increased 1.0 percent in constant currency and declined 3.7 percent on a reported basis. Factors affecting third quarter comparisons include the positive effect from overlapping last year's approximately \$150 million impairment charge that I mentioned earlier and the deconsolidation of Brazil, partially offset by the dilution from Flipkart. Changes in currency rates negatively affected operating income by approximately \$60 million.

Let's now turn to highlights from key markets. The following quarterly results are on a constant currency basis.

Walmex continued to deliver consistently good results with net sales up 7.2 percent and comp sales growth of 5.4 percent. All divisions and formats gained share, according to ANTAD data on self-service formats, marking 15 consecutive quarters of outperformance. In Mexico, comp sales increased 6.3 percent and were up 13.5 percent on a two-year stacked basis. We also continued to gain market share in key traffic driving categories, including food and staples, according to ANTAD. In

eCommerce, omnichannel sales growth was strong as we added new sellers to the marketplace. We've seen a ten-fold increase in marketplace sellers over the past 12 months.

In Canada, net sales increased 2.8 percent and comp sales increased 2.5 percent. There's good momentum in this market as we've delivered eighteen consecutive quarters of positive comp sales, supported by six consecutive quarters of positive comp traffic. We continue to benefit from our expanded online grocery offering, and according to Nielsen we gained market share in key categories such as fresh food, consumables and health and wellness.

Turning to China, net sales increased 4.3 percent and comp sales increased 2.2 percent. We continued to see good results in fresh across formats and channels. We're pleased with our omnichannel initiatives, including strong performance during seasonal festivals and our first omnichannel event in August. The flagship stores on JD.com experienced significant growth and we expanded the one-hour delivery service through Dada-JD Daojia, which is now available in over 230 stores.

In the U.K., net sales increased 3.7 percent and comp sales grew 2.0 percent, which is the sixth consecutive quarter of positive comps. The market remains highly competitive and we took steps to maintain our competitive position. Asda continues to make progress against its key strategic priorities, including improving its price position and expanding private label penetration.

### Sam's Club

Sam's delivered strong comp sales growth of 3.2 percent, excluding fuel, and 5.7 percent when excluding fuel and tobacco. The transfer of sales from closed clubs to existing clubs contributed over half of the comp growth and eCommerce sales growth continued to be strong, up 32 percent. We're really pleased with Sam's Club's performance, especially considering that it lapped a comp sales benefit of 70 to 90 basis points from hurricanes in the third quarter of last year. Investment in fresh categories, price and free delivery for Plus members are contributing to traffic

increases and comp sales growth. Fresh has been a key focus area and both comp sales and traffic exceeded 5 percent in the quarter. The continued momentum means the investments we've made, including adding more managers to the department, are paying off. We're also encouraged by what's happening with membership. The Plus membership tier continues to perform well through improvements to the value proposition, including free shipping with no minimum purchase.

As expected, operating income declined approximately 13 percent as continued investment in price and the Plus member value proposition, among other factors, pressured gross profit. This was partially offset by a decline in operating expenses due to closed clubs.

In summary, Sam's is building a healthier business with a strong focus on its people, product, price and digital capabilities, all with a common goal to better serve the target member.

### Guidance

I'll close today with an update to some of our annual guidance metrics. As always, we have several assumptions in our guidance, including that economic conditions, currency rates, and the tax and regulatory landscape in our largest markets remain generally consistent. The updated guidance does not include any potential change in value in our investment in JD.com or any potential adjustments related to tax reform.

Let me start with sales guidance. Given the strong Q3 performance and our expectations for the fourth quarter, we are raising our guidance for Walmart U.S. comp sales, excluding fuel, from "around 3 percent" to at least 3 percent growth for the year.

Moving to EPS expectations... on a reported basis, EPS for fiscal 2019 is expected to be \$2.26 to \$2.36. Also, we are raising our Adjusted EPS guidance to \$4.75 to \$4.85, which is most comparable to our previous guidance of \$4.65 to \$4.80. Adjusted EPS excludes the charge for the divestiture of a majority stake in Walmart Brazil, unrealized losses on the

company's equity investment in JD.com, and changes during the year in the provisional tax amount related to tax reform. I'm pleased our current position is allowing us to increase guidance once again.

In closing, we feel good about our competitive position heading into the holiday season. The business remains strong, and we're executing our strategy well as the customer responds to our evolving omnichannel offering. Thank you for your interest in Walmart and have a safe and enjoyable holiday season.